

RESPONSE
OF
DISTRICT OF COLUMBIA
HEALTH AND HOSPITALS PUBLIC BENEFIT CORPORATION
TO
DRAFT AUDIT REPORT NO. OIG-00-02-13JB

Overview

The District of Columbia Health and Hospitals Public Benefit Corporation ("PBC") responds to the Draft Audit Report No. OIG-00-02-13JB ("Draft Report") as stated in this Response.

We have organized our Response in four sections: (1) Preface to Response outlining information pertinent to an understanding of the PBC; (2) Responses to Numbered Findings; (3) Responses Regarding Identified Vendors and Contracts; (4) Implementing Recommendations; and, (5) Miscellaneous Comments.

As recognized in the Draft Report and the Final Management Alert Report, the PBC is committed to improving its contracting and procurement processes. The PBC has demonstrated that commitment by taking immediate corrective actions after the Draft Management Alert Report issued in late 2000. We will initiate further corrective actions in accordance with the recommendations in the Draft Report and the Final Report. As recognized in the Draft Report, the PBC under my leadership has been very open and candid with your staff. The PBC will continue to cooperate with you and other government officials so that the contracting and procurement processes will be improved.

Part 1: Preface

Historic Underfunding

Appropriations to fulfill the legislation chartering the PBC as a separate instrumentality within the Government of the District of Columbia have consistently been inadequate. The Council of the District of Columbia ("Council") has recognized this historic underfunding in recent hearings. The initial annual funding level for the proposed contract for indigent health care services to be issued pursuant to the request for proposals previously issued by the District of Columbia Financial Responsibility and Management Assistance Authority ("Authority") exceed the PBC's Fiscal Year 2001 appropriation. Since then, public reports of the value of the proposed contract have consistently indicated that the cost to replace the PBC's indigent care services approaches (or exceeds) double the PBC's current subsidy. This fact is an implicit acknowledgment of the

Charles C. Maddox, Esq.

March 23, 2001

Page 2

Let me assure you that the Draft Report was not provided to the Washington Post by the PBC. In accordance with your instruction, the PBC limited access to the Draft Report to a very small group of persons who worked on developing our Response. PBC officials with access to the Draft Report declined to comment when approached by the Washington Post reporter.

Should you or your staff wish to discuss this matter, please call me at (202) 698-7655. If I am not available, please feel free to call Phillip Husband, the PBC's General Counsel, at (202) 698-7920.

Sincerely yours,

A handwritten signature in black ink that reads "Michael M. Barch". The signature is fluid and cursive, with the first name "Michael" and last name "Barch" being more prominent than the middle initial "M".

Michael M. Barch
General Manager
and Chief Executive Officer

cc: Julius Hobson, Jr.
Victor G. Freeman, M.D.
Phillip L. Husband, Esq.

**PBC ADMINISTRATION**

1900 MASSACHUSETTS AVE., S.E.
WASHINGTON, D.C. 20003
(202) 675-7655
Fax: (202) 675-5650

COMMUNITY HEALTH PROGRAMS

1900 MASSACHUSETTS AVE., S.E.
WASHINGTON, D.C. 20003
(202) 675-7519
Fax: (202) 675-7694

D.C. GENERAL HOSPITAL
1900 MASSACHUSETTS AVE., S.E.
WASHINGTON, D.C. 20003
(202) 675-7655
Fax: (202) 675-7819

SCHOOL HEALTH PROGRAMS
1900 MASSACHUSETTS AVE., S.E.
WASHINGTON, D.C. 20003
(202) 675-7338
Fax: (202) 675-7694

March 23, 2001

**COMMUNITY
HEALTH CENTERS**

PBC ADAMS MORGAN
2250 Champlain St., N.W.
Washington, D.C. 20009
(202) 673-4509
Fax: (202) 673-2266

PBC ANACOSTIA
1328 W St., S.E.
Washington, D.C. 20020
(202) 698-1930
Fax: (202) 698-1968

PBC BENNING HEIGHTS
4650 Benning Rd., S.E.
Washington, D.C. 20019
(202) 645-4161
Fax: (202) 645-4189

PBC CONGRESS HEIGHTS
3720 MLK Ave., S.E.
Washington, D.C. 20032
(202) 645-0400
Fax: (202) 645-0294

PBC HUNT PLACE
4230 Hunt Place, N.E.
Washington, D.C. 20019
(202) 727-0527
Fax: (202) 727-9592

PBC SOUTHWEST
850 Delaware Ave., S.W.
Washington, D.C. 20024
(202) 727-3611
Fax: (202) 727-9621

PBC WALKER-JONES
1100 1st St., N.W.
Washington, D.C. 20001
(202) 724-4973
Fax: (202) 724-4537

PBC WOODRIDGE
2146 24th Pl., N.E.
Washington, D.C. 20018
(202) 541-3819
Fax: (202) 529-4664

**PBC HEALTH SERVICES FOR
CHILDREN WITH SPECIAL NEEDS**
1900 Massachusetts Ave., S.E.
Washington, D.C. 20003
(202) 675-5214
Fax: (202) 675-7694

Via Hand Delivery:

Charles C. Maddox, Esq.
Inspector General
Office of the Inspector General
717 14th Street, N.W., 5th Floor
Washington, DC 20005

Re: Audit Report for Procurement and Contracts
Agency: Public Benefit Corporation
OIG No. 00-02-13-JB

Dear Mr. Maddox:

Enclosed is the Response of the District of Columbia Health and Hospitals Public Benefit Corporation ("PBC") to Draft Audit Report No. OIG-00-02-13JB. Although we discussed the general nature of our Response during the Debriefing Conference earlier this week, we encourage you or your staff to contact us to discuss our Response. In addressing certain concerns about your Draft Report, we are submitting additional documents as we discussed during the Debriefing Conference with your staff. I look forward to reading your Final Report in the near future.

The PBC is committed to improving its contracting and procurement processes as I advised in my response to the Management Alert Report and during the Debriefing Conference. The PBC has demonstrated that commitment by taking immediate corrective actions after the Management Alert Report issued in late 2000. We will initiate further corrective actions in accordance with the recommendations in the Draft Report and the Final Report. As recognized in the Draft Report, the PBC under my leadership has been very open and candid with your staff. The PBC will continue to cooperate with you and other government officials so that the contracting and procurement processes will be improved. As such, the PBC anticipates that all issues will be resolved to our mutual satisfaction within six months as discussed at the Debriefing Conference.

Authority and the Mayor of the PBC's underfunding. Even more egregious is the fact that the PBC often had no annual appropriations for capital expenditures, thus requiring the PBC to utilize money earmarked for operating expenditures for capital items.

Further complicating the PBC's finances was the failure of the District to contract with the PBC to pay for medical services for indigent patients as mandated by D.C. CODE ANN. § 32-262.7(d) (as amended by D.C. Act 13-111, § 1602) for Fiscal Years 1998, 1999, 2000 and 2001.

The lack of adequate funds fosters a crisis environment where acquisition planning cannot be reasonably accomplished and exigencies predominate. The PBC believes that many of the issues outlined in the Draft Report have their root in the lack of adequate appropriations. However, the PBC recognizes that the lack of funding is not a total excuse for the PBC's actions and that the PBC should have more diligently sought additional funding.

Legal Obligation to Provide Care

Although it has been severely underfunded throughout its entire existence, the PBC has been, and remains, statutorily obligated to provide "access to quality comprehensive community-centered health care and medical services, regardless of . . . [the patients'] ability to pay." *See* D.C. CODE ANN. § 32-261.1(a). As such, the PBC has been forced to comply with its legal obligation to provide care despite now-acknowledged, gross underfunding. *See, i.e.,* Final Report for Procurement and Contracts Audit for Fiscal Years 1998 and 1999 from Harris Consulting to the District of Columbia Financial Responsibility and Management Assistance Authority dated May, 2000 at p. 7 ("The PBC experiences frequent cash flow problems due to lack of correlation between the District funding approvals and hospital expenditures mandated by patient need."). (Copy provided to Inspector General as attachment)

Given these factors, it is a wonder and amazement that the PBC has been able to provide quality health care – a fact acknowledged by the PBC's excellent score of 94 on the 2000 survey by the Joint Commission on Healthcare Organizations and the 2001 survey by the Department of Health's Licensure Regulatory Administration.

The Report Speaks of the Past, Not the Present

The Draft Report speaks of the past history of "procurement activities . . . nearly devoid of any meaningful measure of management controls and oversight, primarily due to a lack of commitment to sound procurement policies, *prior to the tenure of the current Chief Executive Officer . . .*" which current PBC leadership initially acknowledged in response to the mid-course Management Alert Report. *See* Draft Report at page 1 (Italics added).

The PBC is committed, under its current CEO and its current Board of Directors, not only to follow all procurement procedures but also to achieve a full recovery for a procurement program that experienced near-total breach of management controls. Although the recovery is not complete, noticeable improvement has occurred, including requiring the department user and division head to approve the contract, the PBC's Chief Financial Officer to identify and obligate funding prior to the commencement of the contract, and approval for legal sufficiency by the PBC's General Counsel. Our internal review of the matters identified in the Draft Report indicates one or more of these functional approval steps was often missing as an internal control.

The PBC recognizes that further improvement in the contracting and procurement activities is required and has committed to implement your recommendations in a reasonable and professional matter that will bring about meaningful change.

Former CEO

The PBC recognizes that its Former General Manager and Chief Executive Officer ("Former CEO") caused, or at least seriously contributed to, many of the problems outlined in the Draft Report. The PBC removed its Former CEO effective June 30, 2001 and is currently involved in arbitration proceedings with him. The PBC therefore concurs in your assessment that the PBC, during the tenure of its Former CEO, did not consistently follow its procurement regulations, permitted defective processes regarding solicitation, execution and administration, and generally lacked commitment to safeguards designed to promote effectiveness and efficiency of operations, reliability of financial integrity, and compliance with applicable laws and regulations.

Procurement Regulations

While we concur with your assessment that the PBC procurement regulations should be revised, we are mindful that the Council, the Mayor and the Authority were involved in the creation and approval of the current regulations. The shortcomings of the current regulations are therefore not the sole responsibility of the PBC. In fact, the regulations that have been adopted do not always contain provisions that the PBC itself would have preferred. The PBC notes neither the Council nor the Authority articulated any deficiency in this area after the PBC's Procurement Regulations were submitted. We further note that the PBC Procurement Regulations - which you criticize - mimic in abbreviated form the provisions of Title 27 of the District of Columbia Municipal Regulations regarding procurement and contracting by the District.

While we agree that the procurement regulations fail to state the responsibilities of a Contracting Officer's Technical Representative and the Contracting Officer's Representatives, the PBC's standard contract template defines those responsibilities. However, we are committed to improving both how these responsibilities are stated and how they are fulfilled during our revision of the

Procurement Regulations and Standard Operating Practices as you have recommended.

Part 2: Responses to Numbered Findings

As to the particular findings, we have summarized our comments as follows:

Finding No. 1: Management Accountability and Controls

The PBC agrees that, during the tenure of its Former CEO, operating procedures were not completed and that management commitment to existing procedures was lacking, thus causing impairment of the effectiveness and efficiency of the PBC's contracting and procurement operations. The Former CEO allowed management to exceed its authority and fostered an organizational culture that devalued accountability as a basic operational standard.

██████████ recommended in 2000 that contracting, procurement and materials management functions be placed under the Chief Financial Officer (who was then a ██████████ representative). The PBC has recognized the failure to separate these functions from the finance functions and has changed reporting relationships.

Finding No. 2: Solicitation Processes

The PBC concurs that it relied much too heavily on sole source procurements and committed other solicitation violations during the tenure of its Former CEO.

As to the contracts your staff reviewed, the PBC may not have documented that it complied with the requirement to allow its employees to submit bids or proposals during the tenure of its Former CEO. The current management is committed to correcting this situation on future contracts.

Although the Draft Report suggests the possibility that employees could have performed some of the services that were outsourced, our comments on the various vendors (below) indicate that the PBC lacked employees for certain critical functions that could only be supplied by a contractor.

Finding No. 3: Contract Execution

Due to the environment fostered by the Former CEO as well as a result of the historic underfunding of the PBC, errors in contract execution occurred during the tenure of the Former CEO. Under its Current CEO, the PBC is eliminating these types of problems. However, the PBC's Chief Financial Officer, an important figure in the contracting process, is controlled and directed by the District's Chief Financial Officer, not the PBC.

However, the Draft Report misrepresents lack of approvals of the PBC Board of Directors for Vendors D, G, and M. Proof of the approvals of the PBC Board of Directors is attached hereto. Copies of the approvals by the PBC Board of Directors for Vendors D, G, and M are provided (copies to Inspector General).

The Draft Report also misrepresents the lack of approval by the Council and the Authority for Vendor G. Proof of the approvals by the Council and the Authority over the years is attached. (Copy to Inspector General only). Prior approval by the PBC Board of Directors is a requirement for approval by the Council and the Authority.

As to Vendor P, the PBC procurement system previously did not recognize the need to identify when a vendor had related contracts that should fairly be grouped as a single contract for purpose of approvals. In addition, procurement personnel erroneously believed that the scope of services controlled whether Board approval was required. The current management has recognized this problem and has since installed an informal system to check for prior contracts with a vendor, to resist issuing separate contracts to a vendor for related services, and to group the value of any existing contracts for the purposes of determining the need for Board approval. This informal system will be further developed when we revise our Procurement Regulations as well as our Standard Operating Practices.

Finding 4: Contract Administration

The PBC admits that contract administration errors occurred during the tenure of its Former CEO and has taken actions -- and will take further actions -- to eliminate such errors. Future training of employees involved in contract administration will be conducted.

Part 3: Responses Regarding Identified Vendors and Contracts

As to particular vendors and contracts, we have summarized our comments drawn from the Draft Report based on the vendor:

Vendor A

While Vendor A clearly performed "a valuable service to the PBC involving clinic licensing", his contract reflects typical procurement problems during the tenure of its Former CEO. The PBC authorized or permitted Vendor A to begin providing services without the knowledge of the PBC's Chief Contracting Officer or the PBC's General Counsel. Although a contract was ultimately signed, the PBC failed to modify the contract to cover invoices in excess of the stated cap.

In addition to terminating the employment of its Former CEO, the PBC has also terminated the employment of the former Senior Vice President and Chief Operating Officer who allowed services to be performed without an initial contract and after the contract limitation had been exceeded.

However, the PBC disagrees with your sole concern in Finding No. 4 regarding the assertion that "PBC could not account for nearly \$800 of government-furnished equipment" provided to Vendor A. The PBC requests that this finding be removed based on the following paragraph.

According to your Auditor, the equipment included a camcorder, battery, blank tapes and audio-visual accessories given to Vendor A in December 1998 to capture deficiencies in the facilities provided to the PBC by the District of Columbia Public School for the School Health Program. In December 1998, Vendor A was an employee of the PBC. His employment with the PBC ended on July 2, 1999. According to his Employee's Clearance Form (copy provided to the Inspector General), all property was returned to the PBC by July 2, 1999. Vendor A's contract with the PBC involved assistance with clinic licensing requirements for the PBC's Community Health Centers. Use of the audio-visual equipment is not alleged in connection with the subsequent contract with Vendor A. Vendor A and PBC personnel have informed the PBC's General Counsel that the audio-visual equipment was returned to the PBC prior to July 2, 1999.

Vendor B

The PBC believes the word "associate" should be changed to "Counsel" to correctly reflect the status of the attorney to Vendor B.

The selection of Vendor B for the \$200,000 contract was egregious and inexcusable. The PBC is exploring legal action against Vendor B and the Counsel.

As to the \$70,000 Modification which the Draft Report lists was unsigned, the PBC's contract file contains a Modification signed by both parties that is not dated. We acknowledge the execution deficiency related to the lack of dates. The \$70,000 Modification replaced a Letter Contract. It can be argued that the Letter Contract expired on December 31, 1999 and before the undated \$70,000 was signed. Assuming *in arguendo* that the \$70,000 Modification was not signed prior to the expiration of the Letter Contract, a subsequent execution by the parties would constitute an agreement by the parties supporting the contractual payments at issue. The PBC maintains that Vendor B did provide the services specified in the Modification. The contract related to the 1115 Medicaid Waiver issue and the District's legal responsibility to contract with the PBC for indigent care. The Mayor's plan regarding the 1115 Medicaid Waiver has never been adopted by the District. Despite the diligent efforts of Vendor B and the PBC, the District – in violation of the mandate of D.C. CODE ANN. § 32-262.7(d) (as amended by D.C. Act 13-111, § 1602) – failed to contract with the PBC for indigent health care services during Fiscal Year 1998, Fiscal Year 1999, Fiscal Year

2000, and Fiscal Year 2001. Given the foregoing, the PBC requests that the disallowance of \$70,000 for services rendered from January to March 2000 be removed.

Vendor C

Page 10 of the Draft Report implies that the PBC is owed \$80,000 while page 15 of the Draft Report indicates that the PBC should seek to recover only \$11,000 in advanced funds. The PBC believes that its documentation as well as the information provided directly to you by a representative of Vendor C establishes that the PBC received valuable architectural and engineering services valued at approximately \$69,000. The PBC will be initiating legal action, through its General Counsel and the Office of the Corporation Counsel, to collect approximately \$11,000 from Vendor C.

Vendor D

Vendor D's contract is the result of the work of the Health Care System Development Commission ("Commission"). Based on available information, a committee comprised of Councilmember [REDACTED] (Chair, representing the Council), [REDACTED] (representing the Authority), [REDACTED] M.D. (representing the Department of Health), [REDACTED] (representing the PBC), [REDACTED] M.D. (representing the PBC), [REDACTED] M.D. (representing the PBC), [REDACTED] (representing the PBC), and Deputy Mayor [REDACTED] (representing the Mayor) reviewed and evaluated the responses to the requests for proposals, selected Vendor D, and apparently raised the value of the contract from \$200,000 to approximately \$465,000. The decision of the committee was thereafter submitted to the PBC Board of Directors for approval and was ultimately approved by the non-PBC government officials. (Copies of Minutes to Inspector General only). The PBC believed at key times that the Commission (or another part of the District government) would fund the contract, thus prompting the misconception that money was not an issue. Vendor D's contract was later assumed by the District of Columbia Financial Responsibility and Management Assistance Authority and eventually assumed by the District of Columbia Office of the Chief Financial Officer.

The allegations of the losing vendor appear to be unsupported and reflective of its loss of the contract. Notably, the losing vendor did not file a protest or appeal to the PBC, an action that should have signified no merit to its apparently unfounded assertions.

Vendor E

Our records reflect three contracts, not four contracts, with Vendor E.

You are correct that a contract limited out-of-pocket expenses to \$300 and did not contain a provision for the PBC to pay travel expenses. You therefore conclude that the PBC overpaid the contractor for expenses in the amount of \$17,779 and have recommended that we seek to recoup this

amount. The current PBC management has recognized that payment of travel expenses should be discouraged through the use of local contractors and employees. We nevertheless believe the facts support an argument that travel expenses, although not directly provided in the contract, were intended by the parties. We therefore request that the "Disallowed" designation be switched to the category for "Funds Put to Better Use". However, we will pursue recoupment of the questioned money from Vendor E if you maintain the payments will be disallowed.

As to the disputed airfares, the PBC believes that any money due to the PBC is owed by Vendor E, not the person who has acted as a PBC executive and a consultant for Vendor E at differing times. The person billed his airfares to Vendor E, not the PBC, if ticket was not provided to him, through Vendor E, by the PBC.

As to Government Transportation Requisitions, the PBC has established informal procedures to prohibit the use of Government Transportation Requisitions by non-employees. This procedure will be formalized when our Procurement Regulations and Standard Operating Procedures are revised as you have recommended.

Vendor F

Your staff did identify a duplicate payment of approximately \$147,000 to Vendor F arising from the previous dual payment systems. The capability to make a duplicate payment was an inherent flaw of the dual payment systems. The financial system that allowed the duplicate payment has been dismantled. All payments are currently made through the District's accounting system. The PBC no longer maintains bank accounts not controlled by the Chief Financial Officer for the District of Columbia.

The Draft Report indicates that the PBC has documented that it recovered approximately \$137,000 in the form of credits against subsequent invoices but indicates a balance of approximately \$10,000 remains outstanding. However, the PBC recovered the remaining \$9,339.34 as shown by Invoice No. 4618 and the corresponding check stub (copies provided to Inspector General). As such, the duplicate payment was fully recouped by the PBC.

Vendor G

Although you have characterized two contracts with Vendor G as "management oversight" contracts valued at nearly \$8 million and appear to portray that nearly \$8 million in management fees were paid, both contracts included requirements for necessary supplies. One contract included the cost of food provided to patients and the cost of food sold in the cafeteria operations. The value of the "management oversight" function is approximately 20% to 25% per contract of the nearly \$8 million.

Both of the PBC's contracts with Vendor G were approved by the PBC, Board of Directors, the Council, and the Authority (copies of approvals supplied to Inspector General), thus indicating the money was being properly utilized. In approving the contracts, the Council and the Authority agreed with the PBC's positions, as supported by feasibility studies, that it was more efficient to outsource the functions (particularly food services) rather than have PBC employees perform the functions. The outsourcing was a response to escalating costs when employees provided the services. Employees were always free to submit proposals for the services. However no employee of the PBC has demonstrated the level of competency and proficiency provided by Vendor G's staff.

Although the Council and the Authority approved a contract for environmental services, the PBC terminated that contract in 2000 when the finances demonstrated that it would be more economical to move the environmental services function back in-house

Vendor H

Although the installation of the timekeeper system to be provided by Vendor H has not been completed due to PBC funding problems, the PBC is entitled to a \$150,000 credit from another contractor (not an identified vendor in the Draft Report) once the installation is completed. Installation of the software timekeeper system is projected to substantially reduce the cost of creating time and attendance records.

Vendor I

The actual amount paid by the PBC was \$48,971.00, not \$55,000 as stated on page 16 of the Draft Report.

Vendor I did provide a deliverable product that can be utilized. Vendor I developed charge tickets without adequate cooperation and timely input from PBC staff. The developed charge tickets are now viewed as not being "user friendly", not meeting the PBC's needs, and not meeting industry standards. The PBC is committed to assuring that this type of situation is not repeated.

Vendor J

The PBC is currently involved in litigation with Vendor J regarding the furnishing of out-of-scope services, services provided without benefit of contract, and questionable billings which the PBC has not paid. In defense to the PBC, many of these charges related to Y2K efforts and efforts to bring the Community Health Centers on line in time for accreditation and licensure surveys. Although the PBC was promised assistance from the District, through the Office of the Chief Technology Officer, the District failed to provided the services, thus leaving the PBC in the precarious position of having to often obtain immediate services from an outside entity. Much of the work provided by Vendor

J could not be performed during normal working hours, primarily due to disturbance of normal operations at the PBC facilities (or the normal operations of co-tenants at Community Health Centers). Although the need for Vendor J's services was justified, the matter in which the PBC procured these services and handled Vendor J is inexcusable.

Vendor K

The PBC is obtaining a duplicate copy of the missing contract from its vendor. The PBC's Finance Department (which is controlled by the Office of the Chief Financial Officer for the District of Columbia) was the ordering department for this contract related to specialized Medicare/Medicaid legal services. The PBC's current CEO has taken steps to assure the involvement of the PBC's General Counsel in coordination with the PBC's Finance Department.

Vendor L

The PBC's Finance Department (which is controlled by the Office of the Chief Financial Officer for the District of Columbia) was ordering department for specialized Medicare/Medicaid legal services and apparently failed to request development of a contract (or alternatively failed to pursue development of a contract). The PBC's current CEO has taken steps to assure the involvement of the PBC's General Counsel in coordination with the PBC's Finance Department. The PBC anticipates issuing a new contract to Vendor L in the very near future.

Vendor M

The reference to "Assistant General Counsel" should be switched to "Deputy General Counsel and Chief of Staff" to accurately reflect the person's titles and to correctly identify the person.

The PBC hired Vendor M at the time that its former Chief Information Officer's employment ended while a major computer installation had not yet been accomplished. Documents indicate that the PBC lacked the employee resources to perform the services provided by Vendor M. Vendor M was a minority-controlled entity with experience in management information systems for healthcare organizations chosen from the Government Services Administration's Federal Supply Schedule.

Contrary to the statements in the Draft Report, Vendor M's contract was approved by the PBC Board of Directors as shown by two Resolutions (copies provided to the Inspector General) once the value of the contract exceeded \$250,000. As such, the PBC requests that you retreat the statements about the lack of approval.

Vendor N

The PBC's failure to renew Vendor N's contract, to stop Vendor N from working without a contract, and to insist on the offered reduction in fees is inexcusable. The PBC and Vendor N are negotiating a new contract with the reduced fees.

Vendor O

The PBC has found that all deliverables were not provided by Vendor O or the person who attempted to have Vendor O's contract assigned to him. As a result, we have dishonored the demand from the individual for the \$40,000 in questioned services. The individual has sued the PBC. The PBC's defenses include the lack of a deliverable product.

Vendor P

See page 5 of this Response. The PBC has no additional comments about Vendor P

Vendor Q

Vendor Q performed services outside the scope of the contract at the request of a member of the PBC Board of Directors who is currently under investigation by your office and with the apparent knowledge of at least one other member of the PBC Board of Directors.* Upon discovery by the PBC's Senior Management, the full Board of Directors stopped the out-of-scope work. As a result, the PBC Board of Directors has been better educated about procurement laws and regulations.

Part 4: Implementing Recommendations

As of approximately March 17, 2001, the PBC expended its operating funds for Fiscal Year 2001 and began operating on transitional funds in accordance with the applicable provisions of Public Law 106-522 (District of Columbia Appropriations Bill for Fiscal Year 2001). The Authority maintains that a contract to provide health services to indigent residents is forthcoming and that the PBC will be abolished by June 30, 2001. Certain functions of the PBC may be assumed by a successor agency. However, the PBC believes it will not be abolished and will continue to operate.

Despite the foregoing and as discussed at the Debriefing Conference, the PBC is committed to implementing your Recommendations as follows:

1. The PBC will undertake to have revised Procurement Regulations ready for presentation to its Board of Directors and the Council by October 1, 2001. The PBC will also submit the

* The OIG neither confirms nor denies the existence of such an investigation.

revised Procurement Regulations to the Authority if legally required.

2. The PBC will immediately request assistance from the District's Office of Contracts and Procurement in revising the PBC's Procurement Regulations. If we may indulge, the PBC would also like to request a review by your staff to assure that the revised regulations address your concerns.
3. The PBC will complete its Standard Operating Practices by October 1, 2001. We will ask for assistance from the District's Office of Contracts and Procurement and would appreciate comments from your staff.
4. The Standard Operating Practices will comprehensively address the issues of internal controls and separation of duties and responsibilities. We note that Vendor D, while employed by the Authority, forced a restructuring that placed all persons performing financial activities and procurement activities under the control of the PBC's Chief Financial Officer. Current management has recognized the flaw in this system and is reorganizing to *remove persons performing non-financial tasks related to procurement from under the Chief Financial Officer.*
5. Beginning October 1, 2001 and continuing each year thereafter, the PBC's Contract Officer will assure that he/she and his/her staff have certified that they have performed assigned duties and responsibilities in compliance with the PBC's applicable Procurement Regulations and Standard Operating Practices.
6. Effective October 1, 2001, the PBC will have conducted and completed an annual acquisition plan in accordance with its to-be-revised Procurement Regulations and hopefully budgets containing realistic appropriations. A new plan will be prepared by October 1st of each succeeding year. Each plan will be revised on a quarterly basis.
7. The PBC will analyze the amounts reported as Questioned Costs and Funds Put to Better Use (as shown in Table II of the Draft Report and any similar Table in the Final Report) on a vendor-by-vendor basis by October 1, 2001. The PBC will provide you with documentation that better substantiates these disbursements, to the extent possible, by October 1, 2001 if not before that date.
8. Subject to our comments which may revise the *Table II of the Draft Report in the Final Report*, the PBC will immediately initiate legal actions, through its General Counsel and the Office of the Corporation Counsel, to collect the Disallowed Costs once the Final Report issues. Once your staff has had an opportunity to review our comments, we welcome any further discussion on this recommendation.

Part 5: Miscellaneous Comments

Regarding page 4 of the Draft Report, how your staff coordinated requests for documents through PBC representatives should be more accurately stated. We suggest the language used in the first paragraph under the caption "Requests for Information and Documentation" on page two of the Final Management Alert Report dated January 8, 2001 which accurately describes how information was gathered.

Regarding page 5 of your Draft Report, the paragraph regarding the Foundation should state that the District of Columbia Health and Hospitals Public Benefit Corporation Foundation, Inc. ("Foundation") is a separate corporate entity controlled by its own Board of Directors (not the PBC Board of Directors) and is not subject to the PBC's Senior Management. The PBC is therefore not responsible for the Foundation or its records.

Regarding page 5 of your Draft Report, the PBC placed persons who worked for the Foundation on the PBC's payroll because the Foundation previously did not have a payroll system. As such, the payroll function was performed by the PBC who was reimbursed by the Foundation. The PBC ended this relationship in the summer of 2000. The Foundation now has its own payroll system.

Regarding page 5 of your Draft Report, the Foundation reimburses the PBC for the PBC's payroll costs for certain PBC employees. The funds paid to the PBC by the Foundation represent grant funds that allow the PBC to treat more patients and maintain more programs. The PBC and the Foundation intend to sever this system at the earlier of (1) utilization of grant funds previously committed in reliance on the reimbursement system or (2) development of a differing system acceptable to the PBC, the Foundation, various grantors, and the subject PBC employees.

As acknowledged in your transmittal letter dated March 9, 2001, the PBC has been asked to respond to the Draft Report on an expedited basis. We would have appreciated more time to respond to the Draft Report. If any of our responses concern you or your staff, please contact us so that we may discuss the issues in greater detail.

Attachments